Jordan Valley Authority

Business Process Mapping: Payroll and Personnel Cycle

Financial Accounting System Program

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√ **Payroll and Personnel Cycle**

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ARABIC EXECUTIVE SUMMARY

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EXECUTIVE SUMMARY

The design of a new financial accounting system (FAS) for the Jordan Valley Authority (JVA) has required a review of all JVA business cycles. Using process mapping, current cycles have been documented to facilitate the transition from a cash-based to an accrual-based accounting system. The current cash-based accounting system does not reflect the actual cost of operations. An accrual-based accounting system would provide this information.

The payroll and personnel cycle include the following business activities, each of which is discussed in detail in this document:

- Hiring and terminating personnel
- Recording time
- Calculating payroll
- Disbursing payroll
- Maintaining payroll master files

The personnel section produces monthly reports required by the Ministry of Finance for internal use. Most are done by the computer system. The computer application used by the personnel section maintains the following type of information on employees:

- Personal and social
- Job history
- Status and allowances

The payroll system maintains and manages information on the following:

- Deductions
- Salaries
- Salary suspensions

Recommendations for improving the systems and for changes necessary to implement the FAS are as follows:

- Establish a standard procedure to document all hiring requests through JVA.

- The head of personnel should validate data and approve entries made into the system.

- The personnel section should make a monthly printout of employees by department and send it to department heads for verification.

- The payroll system should generate reports showing total salaries by cost center.

- All new employees should be added to the personnel master file so they can be paid on time.

- To avoid labor disputes, employees should be terminated only by legal means.
- Employees deleted from the personnel master file should represent valid termination.

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CHAPTER 1
INTRODUCTION

Like other Jordanian government organizations, JVA uses cash-based accounting. Expenses are recorded when they are paid rather than when they are accrued, so the actual costs of operations are not reflected as they would be in an accrual-based system. The current system does provide financial information required by the Ministry of Finance (MOF) which concentrates on allocating funds according to the annual budget.

This document describes in detail the current procedures in the payroll and personnel business cycle at JVA and aims to identify the changes in those procedures that would be necessary to implement an accrual-based accounting system (FAS). It also recommends changes in procedures to improve internal controls as well as to enhance efficiency. Procedures are documented in the form of flowcharts and narrative descriptions to help the reader understand how the systems work. Reporting requirements for the MOF and the computer systems used in this cycle are discussed separately.

CHAPTER 2
PAYROLL AND PERSONNEL BUSINESS CYCLE

A general overview of payroll procedures was presented in the general process-mapping document. Details of the payroll and personnel cycle will be discussed in this document.

The payroll and personnel cycle begins with a job application completed by an applicant and ends with a salary payment in cash when the applicant becomes an employee. It encompasses transactions related to compensating employees for performing their duties including the following business activities, each of which is discussed in detail in this document:

- Hiring and terminating personnel
- Recording time
- Calculating payroll
- Disbursing payroll
- Maintaining payroll master files

JVA uses fund accounting provided by the MOF to conduct its business. Payroll is recorded on a cash basis which means that payroll costs are recorded on the date they are paid rather than when labor costs are actually accrued. Accrual accounts, therefore, do not exist for payroll and related expenses such as salaries, vacation pay, and end of service provision.

2.1 Hiring and Terminating Personnel

Employees are hired to fill vacancies which exist for any of the following reasons: (1) resignation, retirement, or dismissal of current staff; (2) a position advertised in JVA Vacancy Report; (3) employees on educational leave; or (4) employees on unpaid leave.
Heads of departments inform their superiors of the need to fill a vacancy. They in turn inform the Assistant Secretary General (ASG) and the Secretary General (SG) either in person or in writing.

The head of the personnel section keeps track of employees both manually on a vacancy report and electronically. The vacancy report is a fourteen-column page divided into the following six budget programs:

- Administration and supporting services
- Land and rural development
- Dams and irrigation
- Operations and maintenance
- Environmental studies and quality control
- Southern Ghors and Wadi Araba

Each program has a list of employees currently in position sorted into one of the following five levels:

- High (only available in administration and supporting services for the Secretary General position)
- 1st (subject to civil retirement act)
- 2nd (subject to civil retirement act
- 3rd (subject to civil retirement act
- 4th (subject to social security law)

An official letter is sent to the civil service commission to seek candidates for all vacancies except for those in specific projects. If the department does not have candidates available, then the vacancy is posted in one of the official daily newspapers (*Ra'i* and/or *Dustour*) stating the basic qualifications and requirements as set by the requesting party. Replies are addressed to the head of the personnel section.

Once the applicant contacts the personnel section, he is required to fill out and submit an application form with supporting documents such as diplomas, birth certificate, and high school certificate. The application form contains personal data, academic qualifications, typing skills, practical experience, languages, and references.

Applications are submitted to the personnel committee, which consists of three members:

- Secretary General as president
- A representative from the civil service commission
- A representative from the department hiring

The head of the personnel section attends committee meetings to provide information requested by members. He is also responsible for filling out the personal interview form (PIF) and the nomination and selection sheet (NSS).

After reviewing the applications, the committee selects candidates to interview. A personal interview is conducted, the PIF is completed, and the applicant's practical experience is tested. The committee then evaluates the applicant according to the following criteria:

- Appearance
- General knowledge
- Ability to express himself
- General impression
- Special skills

Points are given for three factors:

- Education: A maximum of 40 points is assigned to this factor
- Practical experience: Every year is assigned four points
- Personal interview and practical test: Points are determined at the time of the interview.

Points are then transferred to the NSS on which all applicants are ranked.

If the committee members approve of an applicant, a letter is perapred and signed by them stating that in accordance with Civil Service Law No. 1 for 1998, committee members conferred and recommended one person for the vacant position. The letter is sent to the Minister of Water and Irrigation for approval. If the Minister approves of the appointment, he signs the letter. If the Minister does not approve, the file and letter are sent back to the committee chair for reconsideration. If the chair disagrees with the Minister, the file is transferred to the president of the civil service commission for follow up.

Once approved for hiring, the applicant is required to take a medical test. A formal letter is sent to the General Director of the Ministry of Health and Health Care, whereby the ministry is instructed to confirm that the applicant is healthy and suitable for work in a government agency. The applicant undergoes a series of tests, after which a formal health report is sent with a letter to the Secretary General of JVA. The applicant is also required to provide a certificate of good conduct from the security authorities. Certain positions may require employees to be bonded by a bank guarantee, the amount of which depends on the position assumed. *(*Details of matrix limits are found in the Financial Procedural Manual*.)*

Once the Ministry of Health grants clearance, a letter of appointment is issued to the applicant informing him of his appointment, the position he will assume, and his basic salary and probation period. The letter is then initialed by the appropriate persons (usually the immediate supervisor, the Assistant Secretary General for Administration and the Secretary General). If basic salary is JD 79 or more, the Minister must sign the letter. If the salary is less than JD 79, the Secretary General will sign the letter.

Once approved and initialed, copies of the letter are circulated as follows:

- Applicant
- Personnel file
- Data entry/computer
- Social security accounting clerk
- Payroll accounting clerk
- Head of personnel section (goes to follow-up clerk to update JVA vacancy report)
- Internal Financial auditor
- Head of division
- Assistant Secretary General
- Audit Berue
- Prime ministry (for certain positions)
- Civil Service Commission

When the personnel section receives its copy, a file is opened for the new employee and all related documents are placed in it. The file is then manually assigned a serial number.

The head of the division prepares a letter indicating that the employee has started his job at the specified location/section/division. This letter is sent to the ASG for Administration and Finance. The letter includes the employee's name and starting date.

The ASG for Administration and Finance sends a letter[2] addressed to the administrative manager informing him of the new appointment and the starting date, and attaches the letter received from the head of the division. Ultimately, the data entry clerk receives both letters ([1,2]) and begins processing the file in the computer.

The file is assigned a number manually by the data entry clerk as the system does not generate numbers serially. When assigning file numbers, the data entry clerk refers to a book that has a list of unused numbers.

Next, information is entered into the personnel subsystem which maintains an employee's personal information and job history (including leave, promotion, education, skills, and grade) and produces reports. The data entry clerk enters data into the following screens from the main option menu:

- Employee ID card
- Employee status
- Employee salary and allowances

2.1.1 Employee ID Card

This option contains personal data for all employees at JVA. A sub-selection menu exists and contains the following options:

Personal information [MEPI]

There are four screens in this option.

Screen 1: includes employee numbers (assigned manually), names (last, middle, and first), program numbers, division and department numbers, and whether the employee is committed (i.e., whether JVA pays for his education).

Screen 2: includes the employee's personal ID number, nationality (Jordanian, Arab, or foreigner), date and place of birth, religion (Muslim, Christian, or other), marital status (married, single, divorced, or widowed) and mother's name.

Screen 3: includes information on gender (male or female), country of residence and in what capacity (landlord or tenant), current address, military service (required, not required, finished, or exempt), social security number, number of children pursuing higher education, and whether the employee is retired.

Screen 4: includes information on dependent children, parents and other dependents, health ID number (not used), annual rent, annual housing loan interest, budget line item, education level, and education history.

Family members maintenance [FAMILY_FORM]

This screen includes information on wives, date of marriage for each, and marital/employment status (does not work, government employee, private sector employee, divorced or deceased). It also includes information on children and their dates of birth. Deceased children are labeled with a (1) to avoid giving an employee an undeserved allowance.

Previous experience [EXPERIENCE_FORM]

This screen lists the name of the previous employer, last salary (usually not filled out), title and period of service in months.

Higher education [EDUCATION_FORM]

The names of colleges/universities, places of study, and number of years of schooling are displayed. Also included are academic qualifications (doctorate, masters, diploma, bachelor, three-year, two-year, and one-year degrees), major/minor, grade point average (excellent, very good, good, and acceptable), and year of graduation.

Languages [LANGUAGE_FORM]

Languages spoken are listed by their code numbers. Level of proficiency in reading, writing and speaking (very good, good and moderate) is also recorded.

Family book [FAMILY_BOOK_FORM]

The information included in this section are, date of birth, national number, date of entry into the family book, civil registration number and place of registration, number of beneficiaries, and whether or not the employee is the head of the household.

2.1.2 Employee Status

The personnel section handles any adjustments that could cause salary increments, to an employee's status. A computer-generated report is produced monthly that lists all employees for whom increments are due. This is done according to a scale pre-set by the civil service law. Then the head of personnel prepares a formal letter listing employees' names and increments. It is signed by the Secretary General and circulated as follows:

- Personal file
- Data entry clerk at the personnel section
- Payroll clerk
- Head of personnel
- Financial controller
- Internal auditor
- Head of administrative department

A sub-selection menu exists for the employee status application that contains the following options:

Position [STATUS_FORM]

There are two screens in this option.

Screen 1: includes information on appointment date (starting date), date appointment was authorized, appointment number and status (classified, unclassified, daily worker, or contract), authorizing system (civil service or JVA), date and number of clearance letters from security bodies and the Ministry of Health, and date and number of guarantee if applicable (filled out at a later stage).

Screen 2: includes information on current title according to appointment letter, occupation (operational or administrative), class of occupation (higher, level one, two, three or four), level/rank (one through nine) and year granted, effective date of rank, date of expiration of contract (if under contract), occupation number in JVA Vacancy Report, date of joining civil service, and title according to JVA Vacancy Report.

Promotions and salary adjustment [PROMOTION_FORM]

This screen is filled out after completing the salary and allowances movement schedule, as described below in point 2.1.3. It includes information on current salary, increments, allowances, date and number of letter, effective date, budget line item number, grade, group, level, and type of adjustment (increment, adjustment, cancellation, new employee, promotion, bonuses). Most of the fields in this screen are automatically updated from previously completed screens.

2.1.3 Employee Salaries and Allowances

The sub-selection menu contains the following option.

Salary and allowances movement schedule [SALARY_FORM]

Basic salary, tax exemption for married women, daily workers' rate, allowances and deductions are recorded. The deduction section is filled out by the payroll accountant. Once all the data is entered on the computer, the data-entry clerk marks the file number on the file and files it accordingly.

2.2 Recording Time

There are three magnetic card swipe machines on the ground floor at the information desk. All Ministry of Water and Irrigation (MWI), Water Authority of Jordan, and JVA employees use these machines. Employees are required to swipe their cards upon entering and on leaving. The information desk officer produces a daily report from the computer showing employees who did not swipe in. This report is sent to the administrative manager for review. The report is then sent to the head of the personnel section who issues a formal letter that shows leave and late attendance. The letter is given a number and is circulated as follows:

- Division head
- Head of personnel section
- Payroll clerk
- Personal file
- Assistant Secretary General for Finance and Administration

In addition, the information desk officer issues a monthly report showing late arrivals and any leave taken during the month. The report is circulated in the same way as the daily report. An employee has to complete a leave request form before taking leave. This request has to be approved by his supervisor, if any, and the division head. Once approved, the employee photocopies the request and submits a copy to the information desk officer on his way out. The information desk officer keeps track of all leave requests and records in and out times on the computer.

An employee must complete a vacation request form before taking a vacation. This differs from the leave request form in that one hundred fills ($.14) worth of stamps must be attached to it. The employee's immediate supervisor and division head must approve vacation leave. Before further processing, the request goes to the personnel section to check on the employee's outstanding vacation time balance. Vacation leave requests are submitted in duplicate: one copy is filed in the personal file and one is given to the employee to be delivered to the attendance-controlling unit. Each personal file has a leave schedule which shows any outstanding balance and related transactions. The data entry clerks in the personnel section post leave and vacation taken. No review is done after this point.

In the field, time keeping is decentralized at the level of JVA stage offices. The stage office maintains a time sheet that is signed by employees when they check in and out. At each division there is a payroll clerk responsible for time keeping and processing holiday leave.

According to civil service law, sick leave is handled as follows:

- If less than one week, it is deducted from annual leave.

- If more than one week, it is subject to medical committee review and approval (if not approved, it is deducted from annual leave).

2.3 Calculating Payroll

The payroll clerk is responsible for maintaining and generating payroll-related information for JVA employees. Payroll is centralized at headquarters. The clerk receives copies of all letters issued by the personnel section, including those on increments, terminations, specific deductions, leaves, and overtime. A list of all letters received is logged in a separate book. The payroll clerk enters the changes into the computer system.

While the personnel department enters most of the data into the payroll system, the payroll data entry clerk has access to the system and usually enters the data on the salaries and allowances screen. The payroll clerk has access to the deduction column on that screen and enters information into it.

Around the nineteenth of each month, the payroll clerk begins preparing payroll schedules on the computer. The software creates payroll reports by bank name/division and generates separate reports for employees who are paid in cash or through their bank accounts. Internal auditors and the head of the accounting department audit these reports after the authorized person checks them.

After all reports are generated, the payroll clerk delegates the function of preparing payment requests to an assistant. The assistant in turn takes the report that shows all salary amounts withheld for various parties and prepares a payment request for each. Attached to the payment request is a list of amounts withheld and of payroll. The whole package is then sent to the following parties for review: an internal auditor, the head of the accounting department, the financial controller, an audit bureau representative, an MOF representative and finally to the cashier who prepares the checks. After that point, the package is sent to the social security clerk who issues a payment request for the social security department (ten percent of salary to add to the five percent already deducted) and forwards the slip to the cashier for payment. There are four copies of the payment request: the first is attached with the check and is sent to the vendor, and the last one goes to the disbursement clerk. Once the check is written, the cashier posts the check to the system. This process is clearly described in the Expenditure Business Cycle Process Mapping report.

The following reports are produced by the system:

- Employees and related payroll information such as basic salary, allowances, deductions and net pay;

- Payroll slips, which are generally the same as the first report only a separate sheet is printed for each employee;

- Amounts withheld from employees for each party for which payment requests were made;

- Lists for banks that show all employees having an account at that bank and the net amount due to each; and

- Payroll by program (as per the budget programs and line items) showing gross and net amounts due, in addition to allowances and deductions. This report is supported by detailed lists of employees and their net pay, as well as by the distribution lists sent to banks with payment requests. It goes for review and signature to the internal auditor, the head of accounting, and the person authorized to issue payment.

2.4 Disbursing Payroll

Note: Payroll disbursement procedures are the same as those for expenditures that are documented in the report on that business cycle. A brief description follows.

The payroll section submits monthly payroll summaries and payment requests (vouchers) to the disbursement section. The payment voucher is then recorded in the disbursement journal and is assigned a serial number which becomes the disbursement number. The voucher is recorded against a financial transfer that should have been prepared prior to this step. The accountant enters the payment voucher data into the accounting system and sends it with supporting documents for approval and payment.

After the payment voucher is recorded in the disbursement section, it is sent for approval by the following parties:

- Financial manager or the authorized person
- Internal auditor
- Authorized signatures (depending on the amount)
- The control and inspection unit
- The financial controller of the MOF

The audit bureau approves the payment voucher if the amount exceeds JD 5,000.

After approval, the payment voucher with supporting documents is sent to the cashier section where the accountant prepares the checks. The cashier then records the voucher into the cash journal and assigns it a serial number which becomes the payment number. The data entry clerk then enters the payment voucher into the accounting system. Checks are signed by authorized persons: two signatures are required for checks less than JD 10, 000 while three are required for checks for more than that amount.

Employees' salaries are deposited into their bank accounts. A check is prepared for the net salaries of those employees who do not have bank accounts. It is cashed by a cashier who then pays the employees against their signatures.

The four copies of the payment vouchers are distributed as follows:

- The yellow copy is sent to the disbursement section where it is recorded in the disbursement journal and filed by disbursement number.

- The blue copy is handed to the beneficiary with the check.

- The cashier section files the red copy by payment number.

- The white copy is sent with all supporting documents to the expenditures classification section. (All salaries actually paid are posted to the master payroll record by employee.)

The expenditure classification section records payment information into the "Expenditures Classification Journal" where payments are classified by budget line item. Finally, the white copy and supporting documents are filed by number in this section.

2.5 Posting Monthly Data

Payroll data are posted internally after salaries are calculated at the end of the month.

CHAPTER 3
REPORTING

The personnel section produces monthly reports required by the MOF for internal use. The computer system produces most of them. They include the following:

- Employees over 60 years of age
- Civil service employees according to the vacancy report
- Curriculum vitae of employees
- Names of engineers employed at JVA
- Names of daily workers
- Alphabetical list of employee names
- Names of employees
- Annual increments
- Vacancies for employees appointed under civil service law
- Vacancies for employees in grade four
- Vacancies for employees under contract
- Years of service for employees appointed under civil service law
- New hires
- Hardship allowances

CHAPTER 4
COMPUTER USE

The computer application used by the personnel section maintains the following sorts of information on employees:

- Personal and social
- Job history
- Status and allowances

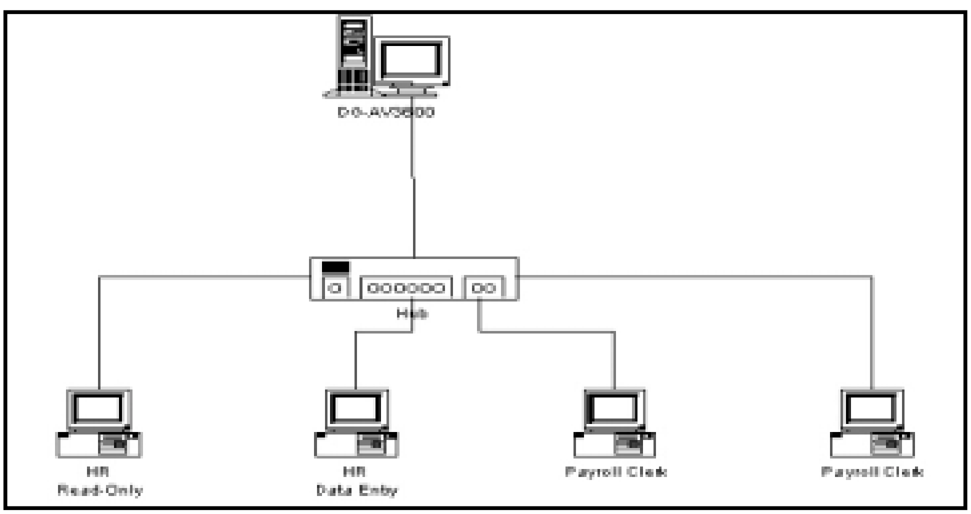
The program includes details from the employee’s application form and information on leaves, service termination, employment suspension, work location, promotions, transfers, scholarships, training, and family. The system also generates reports. Data are not, however, updated on a regular basis. Employee leaves, for example, are not entered into the computer.

The payroll system maintains and manages information on deductions, salaries and salary suspensions, and generates reports. Payroll is calculated as a host-based operation by executing a Pro-Cobol program. The processing of payroll information is centralized at JVA headquarters in Amman.

The payroll and personnel applications are running in client/server architecture. The client is a PC running MS-Windows 95 and Developer 2000, and the server is a Data General AV3600 running Data General UNIX and ORACLE RDBMS Version 8. The applications are to be integrated into the new FAS to provide monthly and daily salary data according to each department or section.

Figure 4.1 below illustrates the existing payroll application.

Figure 4.1 Payroll Application



CHAPTER 5
RECOMMENDATIONS

The following are recommendations for improving the system and for the changes necessary to implement the FAS. These recommendations are based on the findings of the process mapping.

5.1 Hiring and Terminating Personnel

- **Situation Noted.** The need to fill a vacancy is not always communicated in writing; sometimes it is done orally.

  Recommendation. Establish a standard procedure to document all hiring requests through JVA.

- **Situation Noted.** Once the personnel data entry clerk enters data on the computer, no one validates them or approves the entries.

  Recommendation. The head of personnel should validate data and approve entries.

5.2 Maintaining Payroll Master Files

- **Situation Noted.** Department managers do not periodically review listings of current employees within their departments to notify the personnel department of changes.

  Recommendation. The personnel section should make a monthly printout of employees by department and send it to department heads for verification as they are often more familiar with their employees than the personnel department is. Any misstatement could affect budgets, costs, or revenues allocated by department headcount.

  The payroll system should be able to generate reports showing total salaries by cost center.

Hiring Personnel

- Additions to the payroll master file represent valid employees.

- All new employees are added to the personnel master file. If new employees are not added to the master files, they will likely not be paid on time.

Terminating Personnel

- Information on employees who have terminated is not accessible to payroll employees.

- Employees are only terminated within regulation requirements.
  Termination of employees outside union agreements or statutory requirements can lead to disputes or litigation.

- Employees deleted from the personnel master file should represent valid terminations.
  Valid employees may not be paid, and the payroll may be understated.